

HIGHWAYS STATE SPECIAL REVENUE ACCOUNT UPDATE

A Report Prepared for the

Legislative Finance Committee

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INTRODUCTION

The highways state special revenue account (HSSRA) provides the state funding match for more than \$300 million annually of federal transportation funding. The resultant more than \$500 million of transportation spending provides a significant boost for the state economy as they are spent to maintain and expand the state transportation infrastructure. The HSSRA has historically experienced imbalances between revenues and expenditures. It is because of the significant impact on the state economy and the historical instability of the account that the Legislative Finance Committee (LFC) pays particular interest to the fiscal condition of this account. This report is prepared for the LFC to provide awareness of the fiscal condition of the account. This report presents the latest working capital analysis for the account as of the end of fiscal 2003. The report is structured around Figure 1, which illustrates the working capital analysis for the HSSRA. The most recent analysis, based on actual revenue and expenditure activity for fiscal 2003, shows a \$32.0 million improvement from the report presented in the "Legislative Fiscal Report 2005 Biennium" that was based on appropriations for fiscal 2003.

THE HIGHWAY STATE SPECIAL REVENUE ACCOUNT

Applicable Funds

The state special revenue account commonly referred to as the highways state special revenue account is used to fund the major activities of the Montana Department of Transportation (MDT). Two funds are combined to form this account, the constitutionally restricted fund (fund 02422) and the non-restricted fund (fund 02349).

Working Capital Analysis

Figure 1 illustrates the most recent working capital analysis for the HSSRA from fiscal 2002 through fiscal 2009. This report explains: 1) the purpose for focusing on the account's working capital balance; 2) the difference between this analysis and the "Legislative Fiscal Report 2005 Biennium;" 3) the assumptions used in the analysis; and 4) the analysis results.

Working Capital

The starting point for the analysis is the combined working capital for all funds of the account. Working capital is the difference between current assets and current liabilities and provides some indication of the ability of the account to meet its current obligations. Current assets are cash and other resources that are reasonably expected to be realized in cash within one year. Likewise, current liabilities are obligations that are reasonably expected to be paid from existing current assets or through the creation of other current liabilities within one year. Fund balance is the difference between total assets and total liabilities.

Working capital is used instead of fund balance because working capital provides a closer approximation of the account's ability to support the operating cash flow needs. The adequacy of the working capital balance to sustain the operating costs of the department provides an indicator of the need for potential adjustments of revenues or service levels so the department can satisfy its mission in the long-term.

Figure 1
Working Capital Analysis - Highways State Special Revenue Account
Fiscal Years 2002 - 2009
(in \$ Millions)

	Fiscal 2002 Actual	Fiscal 2003 Actual	Fiscal 2004 Approp.	Fiscal 2005 Approp.	Fiscal 2006 Estimate	Fiscal 2007 Estimate	Fiscal 2008 Estimate	Fiscal 2009 Estimate
Beginning Working Capital Balance	\$ 41.1	\$ 51.4	\$ 63.5	\$ 45.0	\$ 29.9	\$ 18.5	\$ 8.6	\$ 0.1
Revenues								
Gasoline tax	125.9	125.4	127.3	128.0	128.7	129.4	130.1	130.8
Diesel tax	56.1	57.9	57.8	58.7	59.5	60.4	61.3	62.1
Gross vehicle weight fees (GVW)	26.2	25.7	25.7	25.3	25.0	25.0	25.0	25.0
General fund transfer	-	0.1	-	-	3.1	3.1	3.1	3.2
Other revenues	5.8	4.7	4.9	4.6	4.3	4.2	4.0	3.9
Revenue deductions								
Alcohol production incentives (15-70-522, MCA)			(1.8)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Ethanol consumption incentives (15-70-204/321, MCA)	-	-	-	(0.6)	(0.6)	(0.6)	(0.6)	-
Total Revenues	\$ 214.0	\$ 213.8	\$ 213.9	\$ 210.0	\$ 214.0	\$ 215.5	\$ 217.0	\$ 219.1
Expenditures								
Department of Transportation (DOT)								
General Operations Program	16.2	10.5	14.6	14.9	14.9	14.9	14.9	14.9
Construction Program	57.2	60.9	87.1	77.8	77.8	77.8	77.8	77.8
Maintenance Program	73.5	75.2	80.5	80.8	80.8	80.8	80.8	80.8
Motor Carriers Services	4.8	4.9	5.2	5.3	5.3	5.3	5.3	5.3
Transportation Planning	1.4	0.9	2.6	2.1	2.1	2.1	2.1	2.1
Debt service (bond principle and interest)	13.9	3.9	-	-	-	-	-	-
Total Department of Transportation	\$ 166.9	\$ 156.4	\$ 189.9	\$ 181.0	\$ 181.0	\$ 181.0	\$ 181.0	\$ 181.0
Statutory Appropriations	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
Department of Justice (DOJ)	17.6	25.7	23.5	23.4	23.4	23.4	23.4	23.4
Long-Range Building Program								
Maintenance and repair of MDT buildings	3.1	1.8	1.7	1.7	2.0	2.0	2.0	2.0
Department of Fish, Wildlife & Parks	0.7	0.4	0.8	0.8	0.8	0.8	0.8	0.8
Total Long-Range Building Program	\$ 3.8	\$ 2.2	\$ 2.4	\$ 2.4	\$ 2.8	\$ 2.8	\$ 2.8	\$ 2.8
Pay plan for DOT and DOJ (HB 13 of 2003 legislature)			\$ 0.5	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2
State match savings - open container law sanction			\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.8)
Transfer for noxious weeds (80-7-823, MCA)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Expenditures	\$ 205.2	\$ 201.2	\$ 232.4	\$ 225.1	\$ 225.4	\$ 225.4	\$ 225.4	\$ 225.4
Revenues less expenditures	8.8	12.5	(18.5)	(15.1)	(11.4)	(10.0)	(8.5)	(6.4)
Adjustments	1.5	(0.4)						
Ending Working Capital Balance	\$ 51.4	\$ 63.5	\$ 45.0	\$ 29.9	\$ 18.5	\$ 8.6	\$ 0.1	\$ (6.3)

Factors for the Improved Fiscal 2003 Ending Working Capital Balance

The ending working capital balances for fiscal 2003 is the known starting point in this analysis for the estimates of succeeding fiscal years. The ending balance for fiscal 2003 is roughly \$32 million higher than that reported in the "Legislative Fiscal Report 2005 Biennium," because of offsetting impacts of \$32.7 million in appropriation reversions, actual revenues below estimates by \$1.2 million, and accounting adjustments that did not involve either a revenue or expenditure transaction (\$0.4 million).

Construction Program reversions of nearly \$25 million account for the majority of the difference, in both magnitude and percentage (80 percent of department reversions). Construction Program reversions

typically occur when expenditures on projects do not occur when they are anticipated in the tentative construction plan used to develop the construction budget. Delays often occur due to weather conditions that delay construction projects or when right-of-way acquisitions do not occur when anticipated. Reversions in the remaining four programs that expend HSSRA and on Long-range Building Program projects accounted to the remaining nearly \$8 million from the level shown in the “Legislative Fiscal Report 2005 Biennium.”

Analysis Assumptions

Expenditure Assumptions and Basis

Expenditures for the 2005 biennium are appropriations approved by the 2003 legislature in HB 2 (General Appropriations Act), HB 5 (Long-range Building Appropriations), and HB 13 (State Employee Pay Plan), as well as appropriations and transfers specified in state law. Revenues for the 2005 biennium for gasoline tax, diesel tax, and gross vehicle weight fees are estimates contained in HJR 2 (Revenue Estimating Resolution). All other revenues are recorded at the fiscal 2003 levels except for a portion of other revenues corresponding to Short-term Investment Pool (STIP) interest earnings are dependent upon the condition of the fund and change as working capital changes.

Expenditures for years after fiscal 2005 are shown at the fiscal 2005 level in recognition that future legislatures approve increases in appropriations, except appropriations for the Long-range Building Program are shown at the level typically approved by the legislature prior to the 2005 biennium. Revenues for years after fiscal 2005 are increased by the trend reflected in the HJR 2 revenue estimates, where they are included in HJR 2. For other revenues, the fiscal 2003 levels are continued except that STIP interest earnings change as working capital changes.

Federal Highway Funding Reauthorization

Federal funding for MDT comes via the Transportation Equity Act for the 21st Century (TEA-21), which will expire on September 30, 2003. TEA-21 was enacted on June 9, 1998, and authorizes the federal surface transportation programs for highways, highway safety, and transit for the six-year period from 1998-2003. Since the federal highway funding legislation has yet to be reauthorized, the amount of federal funds Montana will receive or the requirements for spending the funds have not been determined. The uncertainty with federal funding levels could impact HSSRA since HSSRA provides the state funding to match the federal funds. However, the budget for the 2005 biennium was developed and approved based on the assumption that federal-aid highway funding would average \$325 million per year under a successor to TEA-21. This is an increase from the roughly \$260 million per year Montana received under TEA-21. Because the state funding needed to accommodate the assumed increase in federal funding was built into the 2005 biennium appropriations and succeeding years expenditure estimates are based on the fiscal 2005 appropriations, the impacts of a higher federal-aid program are included in the analysis.

Analysis Results

Figure 1 illustrates the working capital analysis for the HSSRA from fiscal 2002 through fiscal 2009. Projections of the HSSRA working capital indicate that the account should maintain a positive working capital balance through the current and next biennia. As stated, the ending working capital balance for fiscal 2003 of \$63.5 million is \$32.0 million higher than the ending balance shown in the “Legislative Fiscal Report 2005 Biennium.”

The analysis shows if all appropriations of HSSRA are fully expended and HJR 2 revenue estimates come to pass during the 2005 biennium, the current balance would be depleted by \$33.6 million during the 2005 biennium. In future biennia, the budgeted structural imbalance is expected to continue and further erode the balance until it is fully depleted at the end of fiscal 2008. If history repeats itself as it has for the last several biennia, reversions of appropriations would delay depletion of the fund until beyond the end of the 2009 biennium.

CONCLUSION

Current projections of HSSRA indicate that the account has a working capital balance adequate to support the current operations of the department through the current and next biennia. Based on the assumption of full expenditure of appropriations, HSSRA has a budgetary structural imbalance that if all budget authority were fully expended would fully deplete the working capital balance during the 2009 biennium.

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